

Message Text

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ACTION EB-08

INFO OCT-01 ISO-00 AF-10 ARA-10 EA-10 EUR-12 NEA-10
IO-13 OIC-02 AGRE-00 CEA-01 CIAE-00 COME-00
DODE-00 FRB-03 H-01 INR-10 INT-05 L-03 LAB-04
NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15 STR-07
ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01 DOE-15
JUSE-00 /168 W

-----064246 261437Z /46

P 261423Z JUL 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 8516

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E.O. 11652: N/A

TAGS: EAGR, EPAP, ETRD, ISO

SUBJECT: SUGAR -- SUGGESTED BRAZILIAN APPROACH TO CURRENT
MARKET SITUATION IN THE INTERNATIONAL SUGAR
AGREEMENT

REF: (A) LONDON 11462; (B) LONDON 11469

1. THE FOLLOWING TEXT WAS SUPPLIED TO EMBASSY COMMODI-
TIES OFFICER BY THE BRAZILIAN EMBASSY FOR U.S. VIEWS
PRIOR TO THE MEETING OF THE INTERNATIONAL SUGAR AGREE-
MENT (ISA) EXECUTIVE COUNCIL ON JULY 28, 1978:

2. BEGIN TEXT.

"PROBLEMS BEING FACED IN THE SUGAR MARKET - ONE POSSIBLE
APPROACH UNDER THE ISA.

BRAZIL BELIEVES THAT THE ISO HAS NOT EXHAUSTED THE MEANS
AT THE DISPOSAL OF MEMBER COUNTRIES UNDER THE 1977 AGREE-
MENT TO IMPROVE THE EXISTING IMBALANCE BETWEEN SUPPLY
AND DEMAND AND THUS INDIRECTLY TO EXERCISE SOME POSITIVE
INFLUENCE UPON THE SUGAR PRICE SITUATION. ONE OF THE
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DEPRESSING FACTORS IN THE PRESENT MARKET SITUATION IS
THE EXISTENCE OF A SURPLUS ESTIMATED AT 900.000 TONS,
REPRESENTED BY THE DIFFERENCE BETWEEN THE AGGREGATE OF
EXPORT ENTITLEMENTS IN GENERAL AND THE AMOUNT OF SUGAR
THAT THE FREE MARKET CAN REALLY TAKE FROM MEMBERS.
HOPE HAS BEEN EXPRESSED IN OREVIOUS ISO MEETINGS THAT
SHORTFALLS TO BE DECLARED BEFORE SEPTEMBER 30 WOULD CON-

TRIBUTE TO TRIM SUCH A SURPLUS, BUT IT IS A WELL-KNOWN FACT THAT THE MARKET DOES NOT REACT TO EXPRESSIONS OF HOPE, OR EXHORTATIONS, AND THAT IT IS IMPOSSIBLE TO FORECAST HOW MUCH SUGAR WILL FAIL TO BE EXPORTED IN THE REMAINDER OF THE QUOTA YEAR.

IT MAY BE ADDED THAT, IN VIEW OF THE PENALTIES PROVIDED FOR IN THE AGREEMENT, CERTAIN NORTHERN HEMISPHERE EXPORTING COUNTRIES MAY PREFER NOT TO MAKE SHORTFALL DECLARATIONS IN DUE TIME AND TO TRY TO MEET THEIR COMMITMENTS IN THE PRESENT QUOTA YEAR BY ANTICIPATING THE START OF THEIR 1978/79 CROP, WITH LOSSES TO THEIR ECONOMIES AND NO BENEFIT AT ALL FOR THE OBJECTIVES OF THE AGREEMENT.

IN THE BRAZILIAN VIEW, ANY EARLY INDICATION THAT SMALLER AVAILABILITIES OF SUGAR WILL BE OVERHANGING THE MARKET IN THE COMING MONTHS IS BOUND TO HAVE A HEALTHY EFFECT ON PRICES. BRAZIL ALSO BELIEVES THAT THE ONLY WAY FOR THE ISO TO OBTAIN SUCH EARLY INDICATION IS TO REALLY ENCOURAGE EXPORTING MEMBERS TO DO SO BY USING THE MEANS AVAILABLE UNDER THE AGREEMENT IN A CONSTRUCTIVE MANNER. ONE POSSIBLE APPROACH COULD BE THAT, WHILST URGING EXPORTING MEMBERS TO MAKE EARLY DECLARATIONS OF UNUSED QUOTAS, THE EXECUTIVE COMMITTEE DECIDES TO RECOMMEND TO THE COUNCIL THAT THE NET EXPORTS OF MEMBERS THAT MAKE SUCH DECLARATIONS BE CONSIDERED AS AFFECTED IN THE PRESENT QUOTA YEAR BY THE SPECIAL CIRCUMSTANCES MENTIONED IN PARAGRAPH 2(D) OF ARTICLE 34 AND THAT SUCH NET EXPORTS LIMITED OFFICIAL USE

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BE ADJUSTED TO THE FULL LEVEL OF THEIR QUOTAS IN EFFECT IN 1978. BRAZIL THINKS THAT THE COUNCIL WOULD BE FULLY JUSTIFIED IN CONSIDERING THAT THE HIGHLY ABNORMAL MARKET SITUATION PREVAILING SINCE LAST JUNE FITS INTO THE BROAD

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-----064269 261438Z /42

P 261423Z JUL 78

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 8517

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CONCEPT OF "SPECIAL CIRCUMSTANCES" AND THAT EXPORTING COUNTRIES, IN SUCH EXCEPTIONAL CIRCUMSTANCES, SHOULD NOT BE PENALISED FOR CONTRIBUTING TO REDRESS THE PRESENT STATISTICAL IMBALANCE AFFECTING THE MARKET. ALTERNATIVELY, AND WITH THE SAME OBJECTIVE IN MIND, THE EXECUTIVE COMMITTEE COULD CONSULT EXPORTING MEMBERS UNDER PARAGRAPH 8 OF ARTICLE 42, IN ORDER TO ESTABLISH WHICH OF THEM MIGHT NOT USE THEIR FULL QUOTA IN EFFECT IN 1978 AS WELL AS THE QUANTITIES INVOLVED. AGAIN THE SAME DECISION ON ADJUSTMENT OF NET EXPORTS MAY BE REQUIRED LATER IN THE YEAR, IN ORDER NOT TO PREJUDICE THE RELATIVE EXPORT PERFORMANCE OF SUCH COUNTRIES IN 1978 FOR THE PURPOSES OF PARAGRAPH 2 OF ARTICLE 34. IN ORDER TO ALLAY ANY FEARS ON THE PART OF IMPORTING MEMBERS THAT SUCH A PROCEDURE MAY CREATE AN UNDESIRABLE PRECEDENT THAT COULD BE INVOKED IN ENTIRELY DIFFERENT MARKET SITUATIONS, IT IS IMPORTANT TO STRESS THAT DECISIONS OF THE COUNCIL ON THE OCCURRENCE OF "SPECIAL CIRCUMSTANCES" MUST BE TAKEN BY SPECIAL VOTE. SUCH A LIMITED OFFICIAL USE

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REQUIREMENT SEEMS TO PROVIDE SUFFICIENT GUARANTEE THAT THE OVERALL IMPLICATIONS OF THE PROPOSAL OUTLINED ABOVE WOULD CONSTITUTE NO PRECEDENT. IMPORTING MEMBERS MAY ALSO BE REMINDED OF THE SPIRIT OF ARTICLE 59 OF THE AGREEMENT, WHICH, IN THE BRAZILIAN VIEW, SHOULD APPLY IN THE PRESENT CIRCUMSTANCES, IN THE LONG-TERM INTERESTS OF ALL MEMBERS OF THE AGREEMENT.
LONDON, 20 JULY, 1978"
END TEXT.

BREWSTER

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